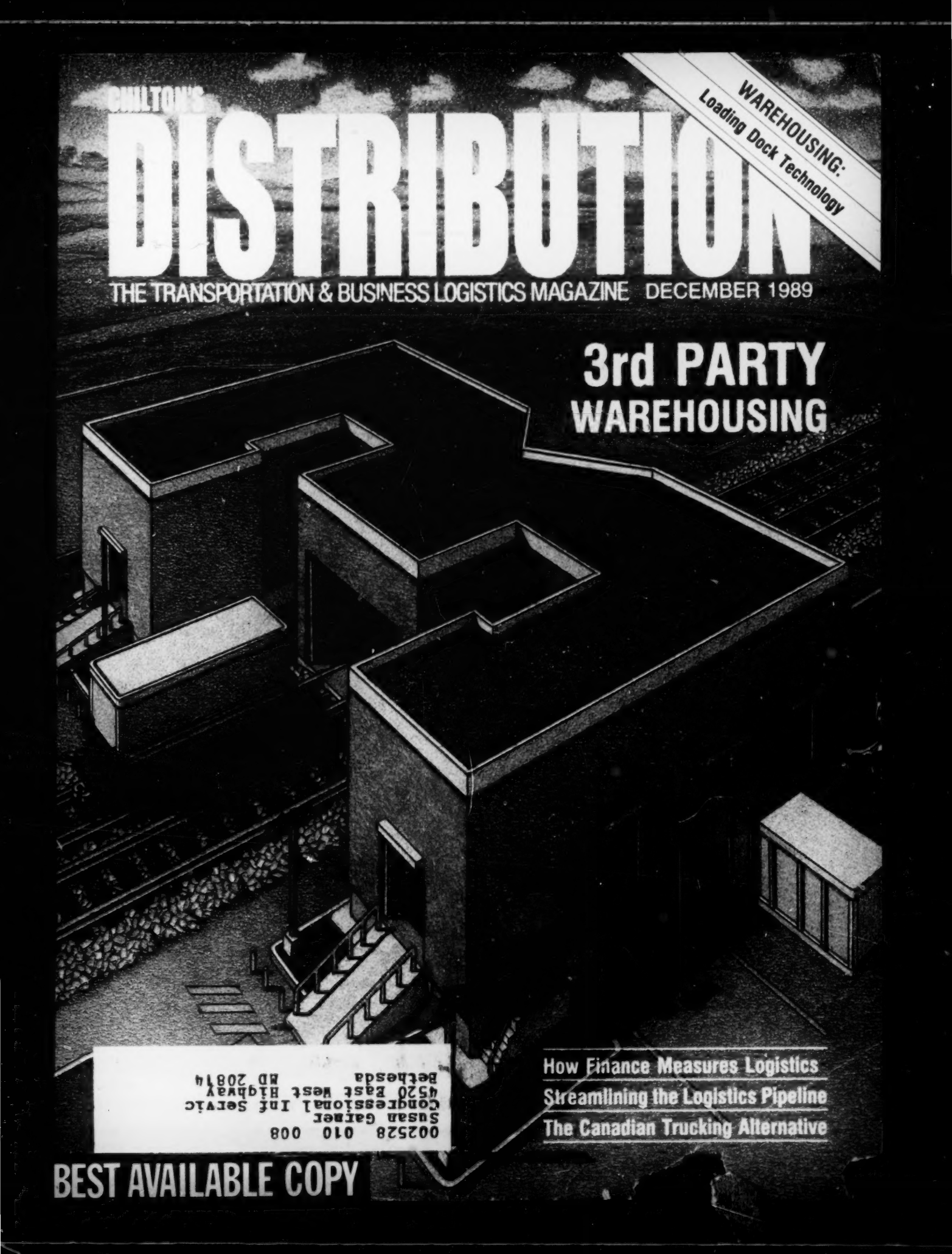

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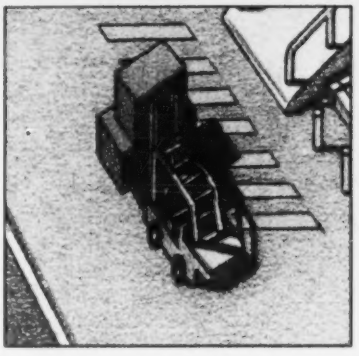

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What separates contract warehousing from public or private? Some say dedication of a facility, personnel, and customized inventory and material handling systems. Ideally, the warehouse vendor should become an extension of your company. Here are 16 questions and answers to help you decide if you're ready to make the switch to third-party warehousing.

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Canadian carriers claim that differing approaches to cabotage put them at a disadvantage compared to their U.S. counterparts. Here's a look at the problem – and how Canadian carriers are beating it.

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Customer service is a mindset, not a formula. And it is sometimes the only way to make and keep a competitive edge in today's market.

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LOGISTICS TRENDS

How Bay area businesses coped with the big quake

Jim Watson can afford a big sigh of relief. "We just had an earthquake drill the week before," says the president of Skyway Freight Systems, recalling the 7.1 temblor that shocked the Bay Area on October 17. Skyway's international headquarters is in Watsonville, one of the hardest hit communities.

But Skyway didn't miss a beat. Every department had an assigned "emergency manager" who took charge of evacuation procedures. The huge computer system that is the heart of Skyway's freight monitoring network was switched over to an independent backup generator, losing only five minutes of normal operating time. A special hydraulic floor in the main computer room, installed specifically for incidents such as this, kept the computers level while the earth did its thing. Customer service 800 lines were immediately rerouted through Skyway's Chicago office. "We never missed a call," says a relieved and proud Watson. "All our contingency plans were transparent to our customers."

San Francisco-based Del Monte Corp. had its downtown headquarters badly shaken. The quake struck in the middle of the company's crucial "fall roundout." October 17 was the company's second biggest sales day of the year. Computers went down, threatening massive problems in the order processing system. Hardy Miller, director of distribution services, noted that an 8-person "disaster team" had until 2 p.m. the following day to rejuvenate the crippled system, or else everything had to be switched to a backup "hot site," which may have caused many delays. "We went back on-line at 1 p.m. Wednesday," recalls Miller, "and we were able to ship orders and bills of lading out to 22 plants and 11 DCs on Thursday morning." There was no damage to product at Del Monte's one local DC, and Miller credits that to stretch wrapping and proper stacking practices. "It's everything you do the other 364 days a year that helps you prepare for a situation like this," he maintains.

"We've been through a major fire, a big labor strike and now this," sighs Safeway Traffic Coordinator Barbara Cooke, based in Fremont, Calif. Immediately after the quake, Cooke teamed up with Safeway's dispatcher in the Oakland office to reroute trucks away from the myriad of damaged interchanges and overpasses. "After those 15 seconds, it became more than a business," she remembers. "People were relying on us."

So is business back to normal? According to Skyway's Watson, it never really went off track. "Within hours of the quake," he recalls, "we had customers in New York and Boston calling and saying 'We're really sorry to hear about it—now where's my freight?' "

Contingency plans to the rescue

A demographic profile of the logistics executive

According to the annual CLM career patterns survey, conducted by Ohio State University, the average logistics executive has been in his or her current position for four years, with the company for 11 years and in the logistics field for 17 years. This pattern is repeated at all levels of responsibility, pointing to the professional nature of the logistics career. An executive position in logistics is seldom a short-term, lateral career move for an individual whose expertise is in another area. Rather, the typical logistics executive has an extensive background in logistics and has worked his or her way up the ladder.

More evidence of the professional nature of the discipline can be found in the educational background of the survey respondents. About 89 percent hold a baccalaureate degree, with 62 percent in business. And 45 percent hold graduate degrees, with 88 percent also in business. What might be more surprising is that 12 percent of the graduate degrees and 8 percent of the baccalaureate degrees are in logistics.

Executives were also asked to estimate how their 1990 logistics budget would compare with their 1989 actual costs. The average estimate for total logistics costs was 4 percent growth over 1989. Individual cost categories ranged from 1 percent for inventory carrying costs to 5 percent for fuel.

A LOGISTICS BUDGET FORECAST FOR 1990

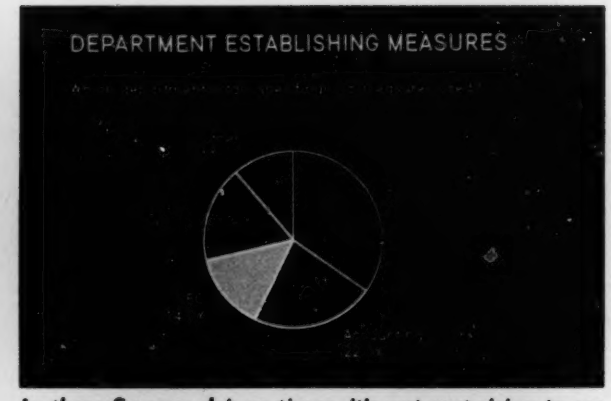
COST CATEGORY	PERCENTAGE CHANGE
Rail	2%
Motor LTL	3
Motor TL	3
Private Fleet	2
Private Warehouse	2
Public Warehouse	3
Fuel (Gasoline)	5
Fuel (Diesel)	5
Inventory Carrying Cost	1
Total Logistics	4

Modest growth

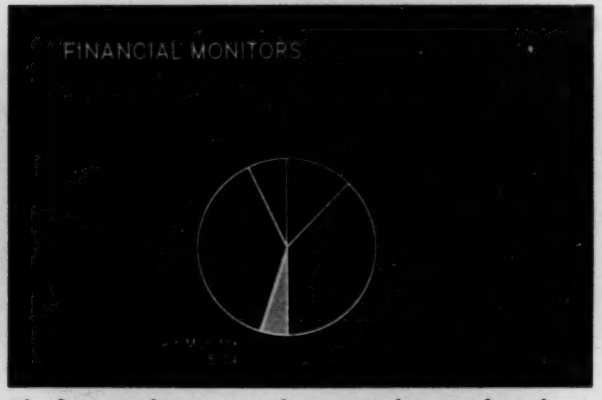
PRICELESS WORK?

Pinning down the best measure of logistics' financial performance is like trying to take out a loan to buy the Mona Lisa. The discipline has limitless ways to get credit.

By Joseph V. Barks, Contributing Editor



In these finance-driven times, it's not surprising to see that in over one-third (35 percent) of the cases, finance departments are setting the ground rules for our responding companies. And if it's not finance, it's most likely to be its evil twin, accounting (22 percent). An encouraging 18 percent of the responding companies, however, say logistics is left to its own devices. Another 14 percent say the rules are set at the very top.



The finance department does more than set the rules, it also referees in at least 38 percent of the cases. But an equal percentage of the responding logistics departments are monitored by their own leader, and another 5 percent filter the financial checkups down to the logistics managers themselves. Surprisingly, 12 percent of the companies say measures are never taken, even though they have been established.

Cynics have defined finance as "the art of managing revenues and resources for the best advantage of the manager." If that's indeed the case, logisticians are either the most versatile or the sloppiest practitioners of the art. A recent Dialogue survey, on how organizations measure and emphasize financial performance in logistics, revealed a spectrum of techniques from crude, stick-figure attempts to true numerical masterpieces.

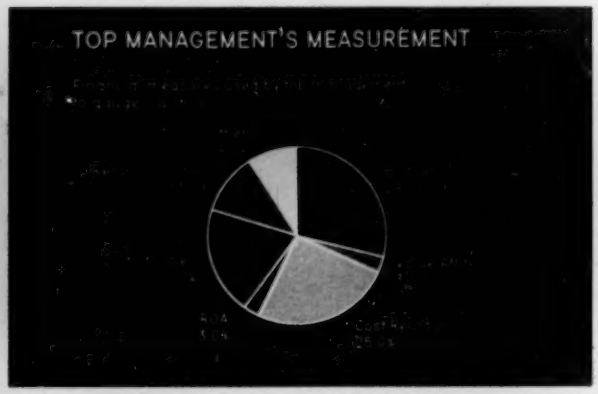
The survey responses make it clear that logistics is no longer being measured strictly in negative terms, such as costs, lost business opportunities, damaged goods and shortages. Our readers report that many positive measures, such as contributions to sales, profits, productivity, quality and customer satisfaction, are now also being used. But consistency from one company to the next is still as unheard of as a paint-by-numbers Renoir. As one anonymous respondent says, "The whole area remains a frontier." And perhaps that is as it should be. There are certainly some very good reasons why so much variety was displayed in the answers to our objective survey questions about the best way to measure logistics' financial performance.

Despite what assembly-line MBAs may tell you, financial criteria should be very much dependent on individual corporate priorities, and adjusted according to operating situations that can change considerably from company to company.

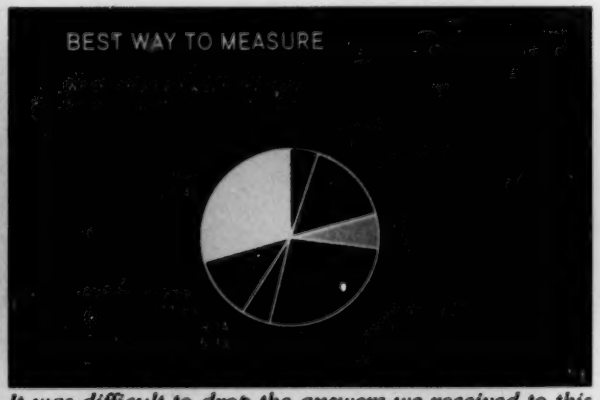
But the variety exhibited in the survey feedback seems to consist of as many parts confusion as customization. Some respondents seemed unable to properly distinguish rudimentary measures of transportation or distribution efficiency, such as carriers' on-time performance and inventory stockouts, from broader financial barometers. Others recognized the difference, but appeared unclear on how to properly convert function-specific measures into fiscal terms. Finally, some respondents didn't seem broad-minded enough to relate anything other than costs to the realm of financial assessment.

Countless Categories

Without knowing more about an individual logistics department and its company's competitive situation, however, it's hard to separate the genuine financial measures from the fakes. In logistics, as well as in the art world, what first appears to be primitive may actually



When assessing the function's overall performance, the financial measures that take a negative or neutral approach – adherence to budget (29 percent), cost reduction (25 percent) and cost of sales (20 percent) – still get the lion's share of the emphasis within the logistics purview. Among the more proactive approaches, return on sales (11 percent) currently has the most support.



It was difficult to drop the answers we received to this open-ended question into specific slots. In many cases, respondents gave more than one answer (these were categorized as "other," giving that slot an unusually large percentage). In general, however, respondents seemed to advocate using more proactive measures (cost of sales and return on sales) than those now being used. Compare, for example, the minimal support displayed here for the adherence-to-budget measure (5 percent) with the 28 percent shown above, which indicates the measures that are now in use. Similarly, only 15 percent say they think it makes sense to be judged in terms of cost reductions, although 25 percent are now measured that way. Clearly, some disgusted faces are now being made when logistics professionals are asked to take their financial medicine.

prove to be quite sophisticated, and what first appears to be avant-garde may prove to be the same old trash. With that in mind, here's a general rundown of the more popular categories of financial measures for logistics that our readers now say are in use:

Damage Control – The idea here is to first try to avoid injury and, failing that, to stop the bleeding as quickly as possible. For Daniel P. Kohler of Bartlett, Ill., that means applying direct pressure to the cost of sales. For Thomas Shedlarski of East Northport, N.Y., it's a more detailed procedure that calls for the calculation of "shipping costs, less late receiving dates, less damaged goods, with associated damaged goods costs." Examples of this last measure, says Shedlarski, can include the lead-time needed to receive or rework damaged goods, idle production, or the costs incurred because of late shipment of manufactured parts.

Savings – "Direct cost reduction" is the ultimate measure, says G. Hansen of Milwaukee, in a typical comment. This viewpoint comes from the school that still sees logistics as a cost center, despite all the fancy rhetoric about its indirect contributions to sales and profits. The task as seen from this perspective is simple: You're sent to the logistics store with a shopping list and so much to spend. The more change you bring back after all the items are bought, the better you've done.

Efficiency – "In our distribution setup, effectiveness in moving most efficiently from point to point is the best measure," says Mike Shumway of Des Moines, Iowa. He, like many other respondents, feels that today's logistics imperative is to "be able to ship from inventory at the closest point to the sale." If this is done, it is felt that several financial benefits will materialize, both by reducing negative impacts like "above-standard costs on 'emergency reaction shipments,' " and by creating or solidifying positive customer relationships.

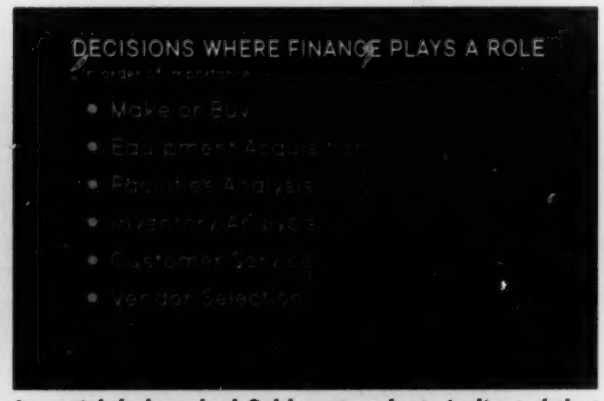
Improved Quality/Service – "Service, service, service," is where measures should be focused, says shipper Kenneth P. Flaherty of Healdsburg, Calif. In the end, he says, "Saving money to lose time and product costs both cash and reputation. It just isn't worth the risks to save a few dollars." M. Morrice of Oakland, Calif., agrees. "The success of logistics should be measured on its participation in obtaining new business, as well as enhancing the service relationship," says Morrice. "Traditional financial measures are internally focused only."

Performance Against Requirements – "Measure against a budget," counsels William L. Seidel of Garrett, Ind., one of many respondents from the "here are your marching orders, now do as you're told" school of performance measurement. This type of measure, however, does not have to be overly rigid, Seidel notes. "The budget would have to be adjusted to reflect variance from volume forecast (both total volume and size of shipment)," he says, "and for required variance from the service standard on which it was based."

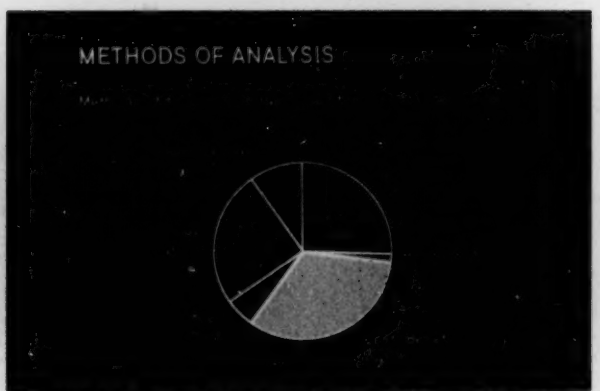
Tradeoffs – Logisticians have now come up with

continued

enough ratios to start their own "Rotisserie League" of financial performance. David Fyock of Phoenix likes to balance "total transportation charges (inbound/outbound) in relationship to cost of goods, to provide a true picture of placing goods before the customer." Meanwhile, Bruce M. Hartley of Swiftwater, Pa., looks at "return on assets managed," and Greg McCauley of Hanover, Pa., looks at "cost versus benefit to company." Traditional measures, such as transportation as a percent of sales, cost per hundredweight and cost per unit sold, also still have their proponents. Richard T. Foley Jr. of Lawrenceville, N.J., gets even more precise with this last approach. "We base our freight costs to meet marketing's set goal of $1 per unit sold," he reports. "In this manner, we have a shipment-to-shipment log and everything under $1 per unit turns from cost to profit."



In a tightly bunched field, respondents indicated that they have the greatest involvement in decisions that revolve around the need to "make" (provide) or "buy" (contract for) logistics-oriented services. Equipment acquisition, facilities analysis and inventory analysis were close behind as areas where logisticians have significant influence. Somewhat surprisingly, customer service and vendor selection fell to the bottom of the list.



On an individual decision basis, ratios and tradeoffs apparently get more emphasis than they are given when grading the function as a whole. Cost/benefit analyses are given the greatest weight (32 percent) for individual decisions, and internal rates of return (24 percent) rank closely with the most direct measure: simple payback (26 percent).

Paybacks – This is a new hot button, but it can be triggered by different things for different people and companies. For some, such as B. L. Kaltenbaugh of Atlanta, payback refers to actual revenues recovered for logistics services that are performed. For others, such as Robert C. Taylor of Kansas City, Mo., payback is related to customer satisfaction and measurable repeat business. For still others, however, payback is less well defined and gets into a "warm fuzzy" area in which you just somehow know that logistics makes good things happen.

Value-Added – F. V. Bonilla of Compton, Calif., and Timothy Saul of Verona, Miss., are just two of many respondents who feel that the whole business of financial performance in logistics can be summed up by this hyphenated pairing. Though be careful here too. Value-added is another current buzz phrase that can either be used quantifiably where logistics is concerned, or be applied in a vague, "we just know it's good for us" context.

Financial Results – To Dennis Webber of West Jordan, Utah, A. Long of San Jose, Calif., and many other shippers, financial performance comes in only one pure form: the bottom line. For these respondents, logisticians have to stand up to the same black or red yardstick as everyone else in the firm, and can't choose to hide behind specialized measures that only serve to divert their attention from the ultimate objective – profitability.

Multiple Measures

Many respondents did not choose to be dropped into one of these slots, and instead advocated a combination approach. Dennis Patrick of Seattle says, "So many different aspects affect costs. I think you must have several measures. You must measure service and cost. You must consider sales and measures. And temptation must be trended and compared as a percent sales trend, percent margin trend and a percent cost per unit. No single method adequately considers the value of speed on profit. It's a very difficult task." Harold A. Richardson of Endicott, N.Y., says you must "take into account not only cost for the service, but time as to when shipments are delivered." Most acknowledged that financial performance, like art appreciation, must in the end involve at least some degree of subjective, ongoing assessment.

With this in mind, Stephen W. Waterson of Yardley, Pa., suggests that the best approach is to "appoint an officer in the company to continually look for better costs and finances without substituting service, while observing expenditures on present logistics performance." Such an approach, it is felt, comes closest to recognizing that logistics produces positive financial fallout in many forms. What is ultimately important, most feel, is that an effort is being made to hold logistics up to some sort of standard, and to subject it to some degree of criticism. Only in that way will the true logistics masters emerge. ■